ORIGINAL

Exhibit - N-21

NSUARB FILE – NSPI – P-886

REDACTED DIRECT EVIDENCE OF COLIN V. GUBBINS (REVISED)

HISTORY

Nova Scotia Power is seeking a revision of electricity rates for 2007 as from April 1st 2007. As a major element of cost, the manner in which NSPI purchases fuel is crucial in determining the rates that they seek from their customer base. Their customers need to be satisfied that the procedures NSPI adopt, and the manner in which they operate within that procedural framework, ensure that they are not unreasonably disadvantaged.

It is necessary to review the history of rate setting in Nova Scotia from a fuel purchasing perspective. In 2002, dissatisfaction with NSPI's fuel purchasing strategy and purchasing performance led to the recommendation that the purchasing procedures be strengthened and that an external advisor be appointed to provide support to fuel purchasing decisions. Subsequently, in its 2005 Rate Case Decision, the Board directed NSPI to acquire an experienced solid fuel purchasing executive from outside to strengthen the purchasing team.

In light of inadequacies in fuel purchasing performance in subsequent years, NSPI have been advised to continue the process of upgrading its solid fuel purchasing strategy and procedures. The major tenet of which is to have in place a portfolio of solid fuel contracts that spreads and minimizes risk.

NSPI in 2004, seeking an increase in rates for the 2005 test year, had a stated strategy of staying close to market with relatively little coal purchased under long term contractual arrangements. This was in contrast to their strategy on sea freight and purchases of petroleum coke where they had long term contractual arrangements in place. With few long term contracts in place, this left them extremely exposed to the surge in coal prices that occurred in the autumn of 2003 and to a lesser extent is still with us.

Since this date NSPI have been trying to put in place a portfolio of solid fuel purchase contracts that combine long, medium and short term contracts with phased renewal dates.

It should be noted that while in the longer term we have been supportive of the portfolio concept, we feel that the turmoil in the coal market means that extreme caution is required in applying this strategy. It was our previously stated opinion that the process should not have been initiated until a degree of stability returned to the market. Notwithstanding the Board's finding in the 2006 Rate Case (Para 114), we are still of this view, and feel that the need to establish a portfolio for a portfolio's sake has become far too high a priority in NSPI's coal purchasing activities.

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Nova Scotia Utility and Review Board

We were critical in 2005 of NSPI's decision to enter into a • contract with • coal when the market had only just come off its peak in 2004. We are still of this view, and we had pointed out that this would impact not only on 2006 but also on 2007 and 2008.

With considerable coal uncommitted for 2006, NSPI's estimates on the price that they would have to pay for uncommitted coal was a significant factor in their seeking an increase in rates. We contested their view of the market forward which NSPI supported in their application by a forecast produced by Hill and Associates. EVA, acting as advisors to NSPI, had access to their own forecasts that were • and close to the views of the McCloskey Group, yet they supported NSPI's application. Subsequent events have shown the Hill and Associates forecast for 2006 to have been • and the forecasts provided by NSPI's advisors and the McCloskey Group closer to the actual performance of the market.

We repeat the graph submitted by us in 2005 which illustrates the views of Hill and Associates, EVA and McCloskey on prices going forward at the time of the last rate hearing.

Forecast of FOB Prices of Colombian High CV coal 11700 BTU/lb
Real Prices in 2005 Money

[REDACTED]

For the first 11 months of 2006 as illustrated in the following graph, the FOB (loaded into vessel) price of Colombian coal as recorded by the McCloskey Group has been $US 53.80 (basis 11700 Btu / lb) rather than $• as predicted by Hill and Associates and relied upon by NSPI in their 2006 test year submission.

[REDACTED]

In their 2007 test year submission NSPI recognise that coal prices softened in 2006 therefore we feel that the numbers submitted by ourselves in respect of forward coal prices have been fully vindicated. We are hopeful that the board will take our record and that of EVA into account when considering this latest application.

The 2007 Test Year Application

Uncommitted Tonnage

Figure 2.10 of the application shows the following tonnage of coal to be uncommitted for 2007

Commodity	Tonnage	Heat Content Btu/Lb	Forecast Price $C/MT FOB
Low Sulphur Coal	•	•	•
Mid Sulphur Coal	•	•	•
High Sulphur Coal	•	•	•
Petroleum Coke	•	•	•

In calculating the price to be paid for uncommitted low sulphur coal we understand NSPI have employed •. It is important to note that this is a departure from the methodology that was stated to have been employed for the 2006 test year where much greater emphasis was placed on the use of a long term forecast produced by Hill and Associates. NSPI state that Hill and Associates had not published its 2006 forecast at the time of the preparation of their 2007 fuel budget. (NSPI Direct Evidence, page 56)

While this may have been the case, it is our understanding from responses supplied by NSPI that they were •.

Their own advisors, EVA, also produce forecasts of prices that, •, would have been available to EVA in advising NSPI of future price movements.

For the consideration of the Board we are including a graph that represents the forecasts of Hill and Associates, EVA and the McCloskey Group in respect of future prices for high CV low sulphur Colombian coal. (The Hill and Associates and EVA forecasts are available in the Confidential Data Room.)

It should be noted that the EVA forecasts •.

Forecast of FOB Prices of Colombian High CV coal 11700 BTU/lb
Real Prices in 2006 Money

[REDACTED]

In support of these forecasts Hill and Associates are of the view • [Executive Summary International Coal Trade Supply Demand & Prices to 2015 Para E1]

McCloskey's recent 'Steam Coal Forecaster Issue no 43' states in Para 1 on page 6

'With the supply balance looking set to tip into the buyers' favour for the rest of the year and with prospects for 2007 if anything , gloomier, prices should fall. The paper markets remain in slight contango, but this is the way that paper has been for almost all of the time since trading began, with the forward curve fairly flat but upwards whatever the spot conditions. However, ***Forecaster*** *is fairly convinced that today's physical price is in trouble and that, as long as a cold winter can be avoided in the Northern hemisphere, the path will be downwards at least for the rest of 2006 and possibly quite sharply in 2007'*

The outlook for the market in 2007 is therefore one of a slide downwards in prices that is supported by the forecasts • as well as the McCloskey Group.

The average of the forecasts for low sulphur coal in 2007 is $• per tonne, which when adjusted for inflation equates to $• per tonne (employing an inflation factor of 3.5%) or $• per tonne, some $• less than forecast by NSPI.

NSPI under their own portfolio rules are only supposed to leave • of their solid fuel purchases under short term contract. While we may question this, we have to take cognisance of it in our evaluation. The minimum permitted under medium term contracts is •, and the minimum under long term contracts similarly is •, potentially leaving • for short term purchases. We have however employed the • figure in our calculations, and the Board may wish to reconsider the •.

If out of a total requirement of • million tonnes only • thousand tonnes (•) can be left for short term purchases, this represents some • thousand tonnes less than the amount outstanding at the time of the Application. We have therefore assumed that • thousand tonnes would have to be bought at 2006 prices. The price tabled by NSPI for 2007 purchases relies on a • that NSPI received in 2006 plus • that, as we will show later, are closely linked to the price of the day. We have therefore assumed that this • thousand tonnes will be purchased at NSPI's estimated prices for 2007.

We have as a consequence reduced the outstanding tonnages that remain to be purchased at actual 2007 prices by • thousand tonnes and spread this reduction equally by grade across the portfolio of solid fuels.

The following table therefore shows our estimate of the tonnage of coal that NSPI are free to purchase at 2007 prices.

Commodity	Tonnage	Heat Content Btu/Lb	Forecast Price $C/MT FOB	Independent F.cst $C/MT FOB
Low Sulphur Coal	•	•	•	•
Mid Sulphur Coal	•	•	•	•
High Sulphur Coal	•	•	•	•
Petroleum Coke	•	•	•	•

The impact of this in total cost terms is an overestimate on purchases of low sulphur coal of $C2.08 million.

Extending this analysis to medium sulphur and high sulphur coal employing • forecasts* (their load point basis is consistent with NSPI's point of purchasing practice) and in the case of petroleum coke the forecasts commissioned from •* in November 2006, the following overestimates emerge for 2007:

Low Sulphur coal	$ C 2.08 million
Medium Sulphur coal	$ C 5.44 million
High Sulphur coal	$ C 1.01 million
Pet Coke	$ C1.68 million (Freight estimate $US•)

Total Overestimate for 2007 $ C 10.22 million

It should be noted that if NSPI were free to purchase up to • short term coal (their Fuel Procurement Manual restricts them to •) the further potential saving to NSPI and its customer base in 2007 would be:

$C 4.73 million

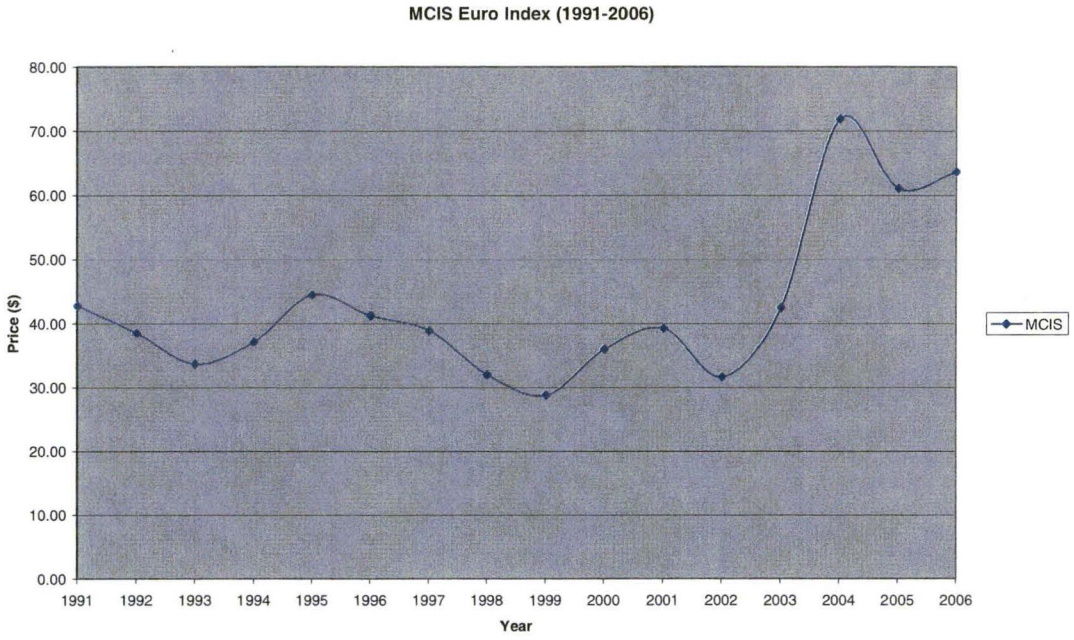
The Use of • Information

•

• The forward price curve for API2 represents energy trader's views of the delivered price of coal into Europe going forward. This represents a valuable tool for locking in the forward price of coal if you are contracted to buy coal on an API2 linked index or if you have no committed purchases. This tool was developed in Europe for utilities who sell electricity on a non regulated basis. The utility is purely interested in locking in a positive differential between the fuel price and the price it receives for electricity. There is

* Note that McCloskey does not forecast Medium, High Sulphur and petroleum coke prices. • are the recognised authority on petroleum coke.

therefore a strong linkage between the price a utility is prepared to pay for fuel and the forward forecast of electricity. Simply for certainty to cover risk there is a natural tendency to build in a premium over current electricity prices. The forward electricity curve will therefore tend to rise (be in contango) and take the fuel price curves into contango with it, since preserving margin is a prime driver. This ignores the fundamentals of supply and demand that historically have seen prices fall over longer periods than they rise as illustrated in the following graph.

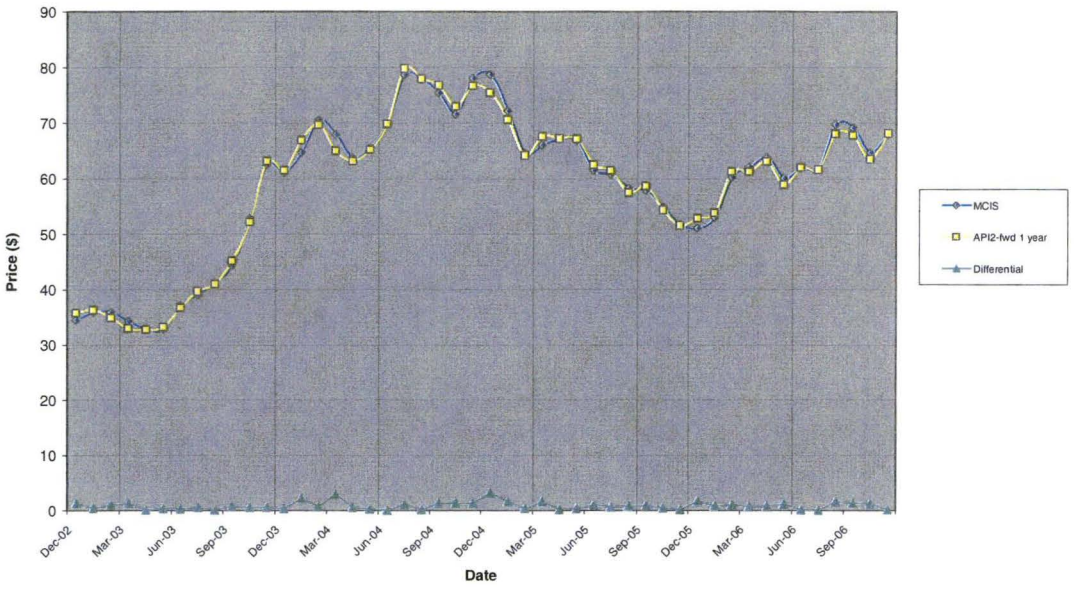


Source McCloskey Group Ltd *MCIS (McCloskey Coal Information Services)*

Forward coal price curves are therefore an unreliable forecasting tool since they do not represent the fundamentals that drive price and that is the supply and demand balance of the commodity itself.

If one studies the prices predicted by the forward curve one year ahead it can be seen from the following graph that there is an extremely close linkage to the price in the marketplace at the time the forward curve was produced.

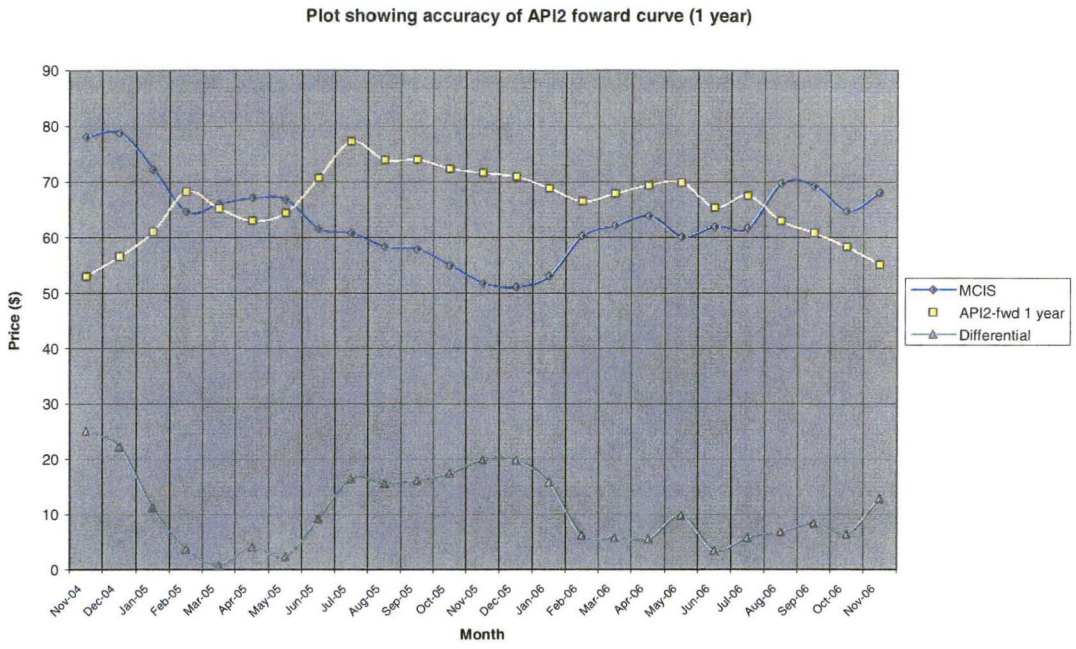
Plot Showing Linkage of Forward Pricing 12 months ahead to the Price of the Day



Source McCloskey Group Ltd

The following graph shows that there is no linkage between the forward curve and the actual price that coal achieves in the market place. The forward curve for the most part is in contango, i.e. indicates rising prices and takes the price of the day as the starting point.

The graph plots what the predicted price twelve months ahead was on the forward curve and the actual price achieved. It can be seen that there is no linkage. In fact relying on forward curves as supportive of purchasing coal from 2004 onwards would have supported paying higher prices than eventuated in the market place.



Source McCloskey Group Ltd

This emphasises the importance of timing in making purchasing decisions. In falling markets as predicted in 2005 by • and McCloskey and in 2006 as predicted by •, McCloskey and • short term purchases should be maximised at the expense of long term prices, whereas when the market turns and prices are forecast to rise, long and medium term purchases should be maximised at the expense of short term purchases. We would expect to see a portfolio with a minimum level of long and medium term contracts.

Compliance with NSPI Fuel Manual.

We note that across the information there is • in the definition of what constitutes a long term contract. The latest Fuel Manual defines a long term contract as •. While we are not hung up on definitions, based upon medium contracts being of • year duration, we are forced to conclude that currently NSPI have no long term contracts in place for •. Indeed, even if one accepts that a contract equal to • is in fact a long term contract, since the • contract was • through 2006 this was less than • in duration at the time agreement was reached •. We would contend therefore that NSPI have no long term contracts in place for •.

Looking at the commitments for coal that support the application (basis Figure 2.4 Summary of Portfolio Status) some • coal that was tabled for consumption was under medium term contract. This represents • requirements and • of total coal requirements, the latter figure exceeding the • for medium term contracts of •.

Far more serious in our view is the make up of the contracts. A base contractual tonnage of • tonnes of coal is committed at the time of the Application to •, namely •, and • of that coal comes from • as defined in the purchase contract, namely •.

The Manual states that •, but the tabled • tonnage far exceeds this limit. It represents •, • of all coal requirements and • of all solid fuel requirements.

NSPI appear to disregard the procedures that they themselves have developed.

Timing of Purchasing Decisions

While we have concerns that NSPI appear to be disregarding their own procedures, in our past expert testimony we have argued for a flexible purchasing strategy that recognises the extraordinary movement in coal prices that has occurred since 2003. We have been critical of the entry into even medium term contracts when prices are high, feeling that NSPI would be better to wait until some semblance of normality returns to the market before committing to longer term contracts. We will elaborate on the ongoing impact.

We were particularly critical of the • entered into in April 2005 with • when the market had only just come off its peak. It was pointed out that the impact of this decision would stretch beyond the 2006 Test Year. This can be seen by the fact that NSPI in September 2006 were •. This represents an additional cost in the fuel purchase budget in 2006 of $• that could have been saved by •. With • and the McCloskey Group predicting a lower pricing regime for coal, this problem stretches into 2007 and 2008 although somewhat lessened by the lower tonnage committed in 2008. Based upon the the combined •/McCloskey/• forecast for 2007 we estimate the overspend in 2007 will be $• and in 2008 using the combined McCloskey/• forecast $•. It should be noted that we have employed the exchange rate figure of $C1.18 = $ US 1.00 as provided by NSPI for 2007.

The same problem is present with the • contract which has the potential to extend high prices into 2008 and 2009. While NSPI may try to support this purchase with reference to •, the price although close to the market at the time of agreement was still high in historic terms. This purchase was made at prices that in 2008 are some $• higher than predicted by the combined forecasts of • and the McCloskey Group when adjusted for inflation. Assuming that NSPI apply the • tonne this indicates an overspend, based upon the combined •/McCloskey Forecast in 2008, of $•.

Notwithstanding the prior findings of the Board related to the prudency of entering into • contract, we would argue that in addition to the overestimate in coal purchase cost there should be a further disallowance to cover the unnecessary extra cost resulting from the impact of the • contract in 2007, and note made of the impact that both the • and • contracts will have on 2008.

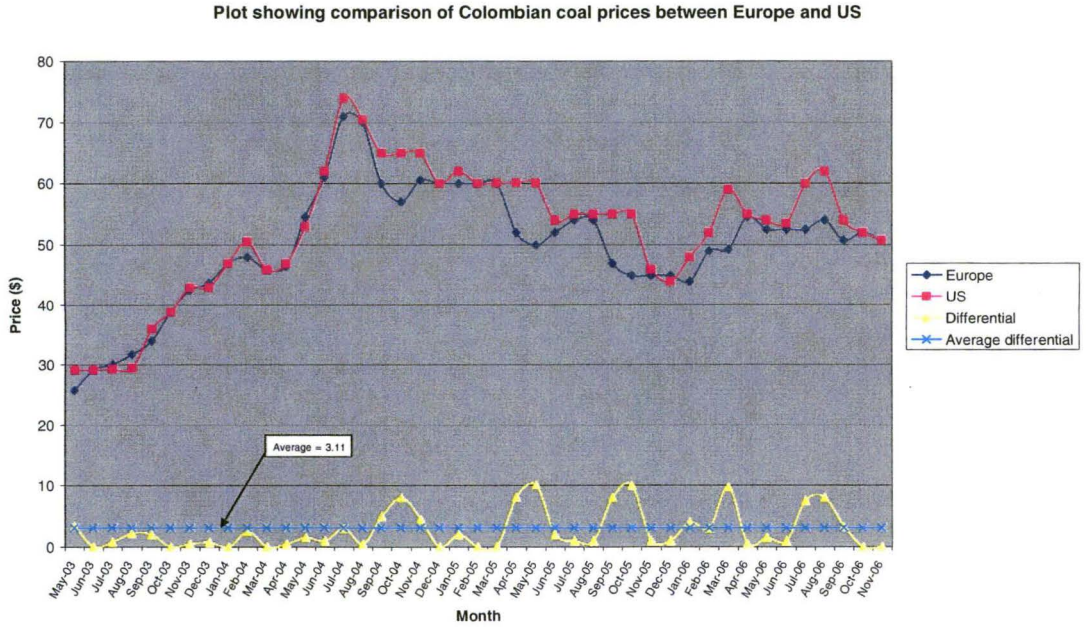
The North American Premium

It has been stated by EVA that a premium exists for • coal sold into the North American market over and above the prices paid by other customers for this coal. The US consumers judge prices by the competitive position of the predominant supplier which is still the USA. As a consequence, when US domestic prices are high, US utilities are prepared to pay commensurately high prices for • coal which can then translate into a premium over the price paid by other customers (mainly but not exclusively European). We do not deny that at times such a difference exists for • coal sold into the US market, but would make the point that Nova Scotia Power in common with the Europeans are predominantly purchasers of imported coal and as such should purchase on the same basis as the Europeans. • Currently our own records show that in fact there is no difference between the price that the Europeans and the US buyers are paying for • coal.

We note that in response to Liberty's IR 64 it is stated

•

We would take issue with these figures, since the McCloskey Group on a weekly basis carries out an investigation into • prices into both the European and US markets. As can be seen from the following graph at no time has a differential of $• been recorded and over the period May 03 to Nov 06 the average has been $3.11. • Sensible timing of purchases should also enable NSPI to avoid being pressurised by sellers to accede to a North American premium.



Source McCloskey Group Ltd

International Pier is limited to the use of belt self discharge vessels which effectively limits its low sulphur purchases to •. There is an argument to support the possibility of suppliers seeking a premium for cargoes destined for International Pier.

We question how •. If indeed this were the case then any premium would only apply to International Pier cargoes and not to cargoes destined to Point Tupper Marine Terminal .Therefore, any premium could only be applied to the portion of the low sulphur tonnage going to International Pier and not all as suggested by EVA.

Subsequent Purchases of Coal

Subsequent to the application, NSPI have made further purchases of coal. It has replaced • tonnes of • coal with • coal purchased on • contract, and supplemented their purchase programme with a further • tonnes of • coal, thereby reducing the open tonnage of low sulphur coal. Although this purchase was compliant with their Fuel Manual, by carrying out this purchase we estimate that this has prevented NSPI from taking advantage of a falling market in 2007, the cost impact of which is $•

While agreeing with the decision to •, we would argue that NSPI, in view of the • forecasts, should have held back from purchasing the additional •.

The other decision made was to extend the •. We have no problems with this, but in view of the advanced nature of these discussions that were concluded on • we are at a loss to know why the Board were not informed of this in the application, • (NSPI Direct Evidence, page 46).

Response to UARB IR-104(a) and SEB IR-105 indicates that this was built into the fuel budget, but lack of detailed information makes the true impact of this contract difficult to determine.

Over Run into Q1 2008

It is our understanding that the electricity rates as approved by the Board will cover the first quarter of 2008 and possibly subsequent years.

Since NSPI have less coal committed in 2008, and the price that they buy coal in 2007 and 2008 is forecast to be lower than their current purchases, this will result in a considerably lower solid fuel cost in the first quarter of 2008.

The open positions as shown in 2008 according to Figure 2.4 of the Application are

Low Sulphur Coal	• thousand tonne
Mid Sulphur and High Sulphur	• thousand tonne
Pet Coke	• thousand tonne

Without access to NSPI's own models it is only possible to indicate the impact of this on NSPI fuel costs.

We would expect that in the first quarter of 2008, NSPI would be able to enter the market for • for which we would expect they would have to pay $• (Basis • and McCloskey forecasts adjusted for inflation) or $• rather than the $• that the Application would suggest.

This represents a potential saving of $ C 2.90 million in that quarter alone. If one then extends this analysis to medium sulphur and high sulphur coal as well as petroleum coke the following savings emerge in this quarter.

Low Sulphur Coal	$C 2.90 million
Mid and High Sulphur	$C ~~2.17~~1.48 million
Pet Coke	$C 2.37 million (Freight assumption $•)
Total	$C ~~7.45~~6.76 million

It should be noted that for the calendar year 2008 the overestimate would total in a full year

4 x $C ~~7.45~~6.76 million = $ C ~~29.8~~27.04 million

CONCLUSION

If the rates agreed are to run until the end of March 2008 at the earliest, it is important to calculate the overestimate of costs for the three months of 2008 in addition to the 9 months in 2007.

2007	9 months overestimate	=	9/12 x $C 10.22M =	$C 7.67M
2008	3 months overestimate	=		$C ~~7.45~~ 6.76M
Total overestimate		=		$C ~~15.12~~14.43M

If one also considers the impact of the • purchasing decisions made by NSPI in entering into • contracts in 2005 and 2006, the figure of $C~~15.12~~14.43 million escalates by:

Impact of • contract for 9 months of 2007 = 9/12x $C 5.48 = $C 4.11 million
Impact of • contract for 3 months of 2008 = 3/12x $ C 2.31= $C 0.58 million
Impact of • contract for 3 months of 2008 = 3/12x$C 2.65 = $C 0.66 million

Total Impact of • and • contracts April 2007 to March 2008

$ C 5.35 million

This added to the overestimate of $C ~~15.12~~14.43 million indicates that on solid fuel costs for the period April 2007 until March 2008 there should be a disallowance of

$C ~~20.47~~19.78 million

As noted above, this figure would increase substantially if one assumed the rates would be in place throughout all of 2008.

December 20, 2006
Revised January 12, 2007

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